Directors' Report

Your directors present their report for the half-year ended 30 June 2017.

Directors

The names of the company's directors in office during the half-year are as follows:

Ian Ferrier
Greg Wilkinson
Clive Rabie
Chris Woodforde

Mr. Chris Woodforde has retired effective 27 July 2017.

Review of Operations

Overview of financial performance for the half-year:

Underlying revenue and EBITDA growth for the half year were both 3%, underpinned by subscription revenue growth of 8%.

The Group has continued to invest for future growth. The focus across all businesses remains on volume growth and entrenching the group as a true subscription business with strong online capability.

The development spend for the half year was $9.8m compared to $11.8m in the prior period, resulting in a 17% cash flow improvement in the half year.

Net profit attributable to members reduced from $6.2m to $5.5m in the half year, largely as a result of higher depreciation and amortisation arising from a higher investment in product development in prior periods.

Practice Management Group
- Subscription revenue grew by 6% in the Accountants Group however this was partially offset by lower upfront and service revenue in the half year, impacted by a number of large one-off contracts in 2016.
- The business remains entrenched as the product of choice amongst the major accounting firms and continues to expand on its already very impressive customer list.
- Content revenue was again weaker in the half year as the market moves to subscription pricing.
- The Legal Group has also continued to perform strongly in the half year with revenue growth of 6%, driven by additional revenue from its newly developed scan product. An investment has been made in the half year to establish and expand the scan market to enable future growth.

Business Group
- Subscription revenue grew by 8% in the half year, however this was again partly offset by a reduction in desktop revenue as clients move to the cloud.
- Overall volumes increased by 2%.
- Cloud revenue in particular continued to grow strongly at 18% and now represents 33% of this division’s revenue.
- ReckonOne continues to gain traction and the unique modular design and resultant affordability continues to receive encouraging feedback from clients.
- The investment in sales and marketing of the ReckonOne product has continued in all geographies.

Document Management Group
- The Document Management Group was divested via a dividend in specie and floated on the AIM exchange in the UK effective 4 August 2017, valued at 19 cents per Reckon share equivalent after the first day of trading. The assets and liabilities have been classified as held for resale.

Rounding of amounts to the nearest thousand dollars
The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports), dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration
We have obtained an independence declaration from our auditors, Deloitte Touche Tohmatsu, which is attached to these financial statements.

Signed in accordance with a resolution of the directors, made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the directors

Ian Ferrier
Chairman

Sydney, 8 August 2017

Condensed Consolidated Statement of Profit or Loss for the half-year ended 30 June 2017

	Note	Half-year 30 June 2017 $'000	Restated 30 June 2016 $'000
Continuing operations			
Revenue from sale of goods and rendering of services	2	42,307	42,206
Product and selling costs		(4,847)	(4,444)
Employee benefits expenses		(14,617)	(14,516)
Marketing expenses		(1,773)	(1,642)
Premises and establishment expenses		(1,023)	(938)
Telecommunications		(308)	(312)
Other expenses		(2,874)	(2,942)
Depreciation and amortisation of other non-current assets		(8,962)	(7,946)
Finance costs		(881)	(1,132)
Profit before income tax		7,022	8,334
Income tax expense		(1,551)	(1,799)
Profit from continuing operations		5,471	6,535
Profit from discontinued operations	3	8	(363)
Profit for the half-year attributable to owners of the parent		**5,479**	**6,172**

	30 June 2017	Restated 30 June 2016
Earnings per share from continuing and discontinued operations	cents	cents
Basic earnings per share	4.9	5.5
Diluted earnings per share	4.8	5.5
Earnings per share from continuing operations	cents	cents
Basic earnings per share	4.9	5.8
Diluted earnings per share	4.8	5.8

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2017

	Half-year	
	30 June 2017 $'000	Restated 30 June 2016 $'000
Profit for the half-year	**5,479**	**6,172**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value movement on interest rate swap	2	75
Exchange differences on translation of net asset values of foreign operations	44	(3,175)
	46	(3,100)
Total comprehensive income attributable to the owners of the parent	**5,525**	**3,072**

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position as at 30 June 2017

	Note	June 2017 $'000	December 2016 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		2,370	1,715
Trade and other receivables		9,246	10,340
Inventories		2,742	2,791
Current tax receivables		7	287
Financial assets		1,556	632
Other assets		2,698	2,602
		18,619	18,367
Assets classified as held for sale		33,932	-
Total Current Assets		52,551	18,367
Non-Current Assets			
Receivables		40	113
Financial assets		331	133
Property, plant and equipment		1,784	2,452
Deferred tax assets		1,087	948
Intangible assets		64,407	95,557
Other assets		1,711	2,154
Total Non-Current Assets		69,360	101,357
Total Assets		121,911	119,724
LIABILITIES			
Current Liabilities			
Trade and other payables		6,270	7,266
Borrowings	6	560	936
Provisions		3,365	3,215
Deferred revenue		6,081	11,712
		16,276	23,129
Liabilities directly associated with assets classified as held for sale		6,537	-
Total Current Liabilities		22,813	23,129
Non-Current Liabilities			
Borrowings	6	51,870	51,618
Deferred tax liabilities		7,034	7,418
Provisions		1,237	841
Total Non-Current Liabilities		60,141	59,877
Total Liabilities		82,954	83,006
NET ASSETS		38,957	36,718
EQUITY			
Issued capital	4	18,707	18,707
Reserves		(47,009)	(47,148)
Retained earnings		67,259	65,159
TOTAL EQUITY		38,957	36,718

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity for the half-year ended 30 June 2017

	Issued capital $'000	Share buy back reserve $'000	Foreign currency translation reserve $'000	Share-based payments reserve $'000	Acquisition of non-controlling interest reserve $'000	Swap hedging reserve $'000	Retained earnings $'000	Total $'000
Total equity at 1 January 2017	**18,707**	**(42,018)**	**221**	**668**	**(6,152)**	**133**	**65,159**	**36,718**
Profit for the half-year							5,479	5,479
Fair value movement on interest rate swap						2		2
Exchange differences on translation of net asset values of foreign operations			44					44
Total Comprehensive Income	-	-	44	-	-	2	5,479	5,525
Dividends paid							(3,379)	(3,379)
Share based payments expense				93				93
Total equity at 30 June 2017	**18,707**	**(42,018)**	**265**	**761**	**(6,152)**	**135**	**67,259**	**38,957**
Total equity at 1 January 2016	**16,929**	**(42,018)**	**4,941**	**638**	**(6,152)**	**(176)**	**59,754**	**33,916**
Profit for the half-year							6,172	6,172
Fair value movement on interest rate swap						75		75
Exchange differences on translation of net asset values of foreign operations			(3,175)					(3,175)
Total Comprehensive Income	-	-	(3,175)	-	-	75	6,172	3,072
Dividends paid							(3,338)	(3,338)
Dividend re-investment plan	1,682							1,682
Share based payments expense				93				93
Total equity at 30 June 2016	**18,611**	**(42,018)**	**1,766**	**731**	**(6,152)**	**(101)**	**62,588**	**35,425**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows
for the half-year ended 30 June 2017

	Note	Half-year 30 June 2017 $'000	Restated 30 June 2016 $'000
Cash Flows From Operating Activities			
Receipts from customers		54,556	54,589
Payments to suppliers and employees		(35,742)	(35,548)
Interest received/(paid)		(881)	(1,132)
Income tax paid		(1,571)	(2,519)
Net cash inflow from operating activities		16,362	15,390
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(499)	(417)
Payment for purchase of business	10	-	(5,785)
Payment for investment in business		(196)	-
Net increase in loan book		(924)	-
Payment for capitalised internal systems costs		(671)	(715)
Payment for capitalised development costs		(9,593)	(12,130)
Proceeds from government grant (development costs)		463	1,089
Net cash inflow/(outflow) from investing activities		(11,420)	(17,958)
Cash Flows From Financing Activities			
Dividends paid		(3,379)	(1,656)
Payment for de-merger costs		(748)	-
Proceeds from/(repayment of) borrowings		(124)	5,439
Net cash inflow/(outflow) from financing activities		(4,251)	3,783
Net Increase In Cash and Cash Equivalents		691	1,215
Cash and cash equivalents at the beginning of the half-year		1,715	1,641
Effects of exchange rate changes on cash and cash equivalents		(36)	(84)
Cash and Cash Equivalents at the end of the half-year		2,370	2,772

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2017

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half year ended 30 June 2017 has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

This interim financial report does not include all of the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Reckon Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The condensed consolidated financial statements have been prepared on the basis of historical cost. All amounts are presented in Australian dollars.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports), dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The group amended the manner in which ASIC pass through fees in the Reckon Docs business was accounted for in the 2016 financial statements. The 2016 half year revenue and product costs have been restated to reflect this change. There is no impact on profits from this change.

	Revenue $'000	Product costs $'000
2016 half year as previously reported including discontinued operations	57,010	12,107
Impact of change in accounting policy	(6,765)	(6,765)
2016 half year after change in accounting policy	50,245	5,342

Note 2: Segment information

Primary segments	Business Group $'000	Practice Managemen Group $'000	Continuing operations Consolidated $'000	Discontinued operations: Document Management Group $'000	Discontinued operations: Business sold $'000	Total $'000
Half-year 2017						
Segment operating revenue	**19,497**	**22,810**	**42,307**	**7,836**	-	**50,143**
Business sold	-	-	-	-	-	-
Total revenue	**19,497**	**22,810**	**42,307**	**7,836**	-	**50,143**
Segment EBITDA	**9,899**	**9,625**	**19,524**	**1,510**	-	**21,034**
Depreciation and amortisation	(4,685)	(4,277)	(8,962)	(1,725)	-	(10,687)
Total segment profit before tax	**5,214**	**5,348**	**10,562**	**(215)**	**-**	**10,347**
Central administration costs			(2,659)	-	-	(2,659)
Finance costs			(881)	-	-	(881)
Profit before tax			**7,022**	**(215)**	-	**6,807**
Income tax expense			(1,551)	223	-	(1,328)
Profit for the half-year			**5,471**	**8**	-	**5,479**
Half-year 2016						
Segment operating revenue	**19,140**	**23,066**	**42,206**	**7,290**	-	**49,496**
Business sold	-	-	-	-	749	749
Total revenue	**19,140**	**23,066**	**42,206**	**7,290**	**749**	**50,245**
Segment EBITDA	**9,931**	**9,947**	**19,878**	**790**	**-**	**20,668**
Depreciation and amortisation	(3,757)	(4,189)	(7,946)	(1,468)	-	(9,414)
Total segment profit before tax	**6,174**	**5,758**	**11,932**	**(678)**	**-**	**11,254**
Central administration costs			(2,466)	-	-	(2,466)
Finance costs			(1,132)	-	-	(1,132)
Business sold			-	-	134	134
Profit before tax			**8,334**	**(678)**	**134**	**7,790**
Income tax expense			(1,799)	221	(40)	(1,618)
Profit for the half-year			**6,535**	**(457)**	**94**	**6,172**

The revenue reported above represents revenue generated from external customers.

Segment profit represents the profit earned by each segment without allocation of central administration costs, finance costs and income tax expense, all of which are allocated to Corporate head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessing performance.

The principal activities of these divisions are as follows:

Business Group - development, distribution and support of business accounting and personal financial software, as well as related products and services. Products sold in this division include Reckon Accounts and Reckon One.

Practice Management Group - development, distribution and support of practice management, tax, client accounting and related software and services under the APS brand as well as the ReckonDocs and Elite brands. Development, distribution and support of cost recovery, cost management and related software under the nQueueBillback brand predominantly to the legal market.

Document Management Group - development, distribution and support of document management and document portal products under the Virtual Cabinet and Smart Vault brands.

Note 3. Discontinued operations

On 17 March 2017 and 30 June 2017 Reckon Limited announced that it proposed to de-merge its Document Management Business into an independent company with shares admitted to trading on the AIM market of the London Stock Exchange.

The Desktop Super business was sold effective 29 July 2016.

The results of the discontinued operations are set out below.

Profit from discontinued operations

	Half-year 30 June 2017 $'000	Half-year 30 June 2016 $'000
Revenue	7,836	8,039
Expenses	(8,051)	(8,583)
Profit before tax	(215)	(544)
Attributable income tax expense	223	181
Profit from discontinued operations attributable to owners of the parent	8	(363)

Cash flows from discontinued operations

	Half-year 30 June 2017 $'000	Half-year 30 June 2016 $'000
Net cash inflows from operating activities	705	239
Net cash inflows from investing activities	(2,023)	(8,131)
	(1,318)	(7,892)

Note 4. Issued capital

113,294,832 shares were in issue at 30 June 2017 and at 31 December 2016.

Nil treasury shares (2016: nil) were purchased in the current period.

Note 5. Dividends

Ordinary shares

	Half-year 30 June 2017 $'000	Half-year 30 June 2016 $'000
Dividends paid during the half-year	3,379	3,338

Dividends not recognised at the end of the half-year

In addition to the above dividends, since the end of the half-year the directors have recommended the payment of a dividend in specie, expected to be equivalent to the net assets of the Document Management business, effective on 4 August 2017, and will be offset against retained earnings.

	Half-year 30 June 2017 $'000	Half-year 30 June 2016 $'000
As a result of the dividend in specie, the directors do not propose to pay of an interim dividend for 2017 (2016: 2 cents). Dividends not recognised as a liability at the end of the half year, is	-	2,249

Note 6. Borrowings

The Group has bank facilities of $71 million. The facility comprises variable rate bank overdraft facilities, loan facilities and bank guarantee and transactional facilities. The loan facility expires on August 2019 and the other facilities expire in April 2018. The facility is secured over the Australian, New Zealand and UK assets. Reckon has partially hedged the bank borrowings.

Note 7. Fair value of financial instruments

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets, is determined with reference to quoted market prices. The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions. The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models. The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate their fair value.

Note 8. Subsequent events

On 17 March 2017 and 30 June 2017 Reckon Limited announced that it proposed to de-merge its Document Management Business into an independent company with shares admitted to trading on the AIM market of the London Stock Exchange. AIM admission has occurred on 4 August 2017. Details of the trading results of this business and the dividend in specie are set out in notes 3 and 5.

Note 9. Business combinations

Reckon Limited acquired the Smart Vault business effective 1 January 2016.

	Half-year	
	30 June 2017 $'000	30 June 2016 $'000
Consideration:		
Cash paid	-	5,628
Cash acquired	-	(211)
Debt acquired	-	368
Cash	-	5,785
Fair value of net assets of entity acquired:		
Receivables	-	430
Intellectual property - development and software	-	5,096
Fixed assets	-	421
Trade payables	-	(654)
Deferred revenue	-	(1,663)
	-	3,630
Goodwill	-	2,155
	-	5,785

Directors' Declaration

The directors declare that:

in the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position as at 30 June 2017 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with accounting standards

(b) there are reasonable grounds to believe that Reckon Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

Ian Ferrier
Chairman

Sydney, 8 August 2017

Deloitte Touche Tohmatsu
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The Board of Directors
Reckon Limited
Level 12
65 Berry Street
North Sydney NSW 2060

7 August 2017

Dear Board Members

Reckon Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Reckon Limited.

As lead audit partner for the review of the financial statements of Reckon Limited for the half-year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Alfred Nehama
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Review Report to the Members of Reckon Limited

We have reviewed the accompanying half-year financial report of Reckon Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2017, the condensed consolidated statement of profit or loss, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 3 to 12.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Reckon Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Reckon Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Reckon Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alfred Nehama
Partner
Chartered Accountants
Sydney, 7 August 2017